

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7567

Petition of Vermont Transco LLC pursuant to)
30 V.S.A. § 108 for Consent to Issue and Sell an)
Aggregate of up to \$35 Million in Class A and Class)
B Units of Equity)

Order entered: 11/16/2009

I. INTRODUCTION

On September 24, 2009, Vermont Transco LLC ("Transco" or the "Company") filed a petition (the "Petition") with the Vermont Public Service Board ("Board") seeking approval pursuant to 30 V.S.A. § 108 to permit the issuance and sale to Vermont distribution utilities of up to \$35 million of Transco's Class A and Class B Units (collectively "Units"), at a price of \$10 per Unit and otherwise on the terms provided in Transco's Operating Agreement. The Units are to be offered to the distribution utilities on a load-ratio share basis. The capital raised from the issuance will be used to fund Transco's ongoing system reliability and system enhancement projects. The Petition was supported by the testimony of Neal E. Robinson, Vice President and Chief Financial Officer for Transco, and by accompanying exhibits.

On October 15, 2009, the Department of Public Service ("DPS") filed a letter with the Board with an attached "DPS Determination Under 30 V.S.A. § 202(f)." The DPS filing recommends that the Board approve the Petition and find that the issuance of \$35 million of Class A and Class B Units as set forth in the Petition is consistent with the *Vermont Electric Plan* pursuant to 30 V.S.A. § 202(f) and consistent with the general good of the state.

On October 16, 2009, the DPS informed the Board by letter that it recommended approval of the Petition by the Board without hearing.

I have reviewed the Petition, the supporting testimony, and accompanying documents. I conclude that approval of Transco's Petition pursuant to 30 V.S.A. § 108(a) is appropriate and that such approval may occur without hearing. Based upon the evidence of record and the

testimony and exhibits presented in this docket, and the DPS letters of October 15 and 16, 2009, I hereby report the following findings and conclusion to the Board in accordance with 30 V.S.A. § 8.

II. FINDINGS

1. Transco is a Vermont limited liability company subject to the jurisdiction of the Board pursuant to 30 V.S.A. § 203. Petition at 1.

2. Transco requests that the Board approve and authorize the issuance and sale to Vermont distribution utilities of up to \$35 million of the Company's Class A Units and Class B Units, at a price of \$10 per Unit and otherwise on the terms provided in Transco's Operating Agreement. Petition at 1.

3. The new issuance will allow Transco to achieve a 50/50 capital ratio (50% debt and 50% equity) that Transco has set for itself as its target capital structure. A 50/50 target capital structure has recently resulted in favorable outcomes for Transco in the form of an upgrade of the Company's credit rating by Dominion Bond Rating Service from "A low-stable" to "A-stable," and two well-received bond issuances in August and September 2009 totaling \$135 million at a fixed interest rate of 4.81%.¹ Transco's capital structure prior to the proposed issuance of the new Units is 54.9% debt and 45.1% equity. After the issuance, the Company's capital structure will be 49.97% debt and 50.03% equity essentially allowing Transco to achieve its capital target. Robinson pf. at 2-3, 7; exh. TRANSCO NER-3.

4. Transco proposes to use the capital raised from the issuance, in conjunction with its line of credit and bond issuance, to fund its ongoing system reliability and system enhancement projects. The Company anticipates capital project expenditures in excess of \$219 million scheduled for 2010. Robinson pf. at 2, 7; exh. TRANSCO NER-2.

5. Transco estimates that the issuance will provide an annual benefit to Vermont ratepayers in the approximate amount of \$885,000. Transco bases this estimate on two calculations. First, the weighted average return for investors is projected to be approximately 11.78%, or \$4.123 million annually (average of Class A Units earning 11.5% and Class B Units earning 13.3%). Assuming the investors have a cost of debt of 6%, annual interest expense

1. See Docket No. 7531, Order of 8/6/09 and Docket No. 7550, Order of 9/11/09.

would be \$2.1 million, leaving a net annual return of 5.78% or \$2.023 million. Second, the return paid to Unit investors by Transco, including income tax distributions paid on Class A Units held by taxable investors, will increase Transco's revenue requirement by \$5.691 million. Of this increase, approximately 80%, or \$4.553 million, would be recoverable from the ISO-New England, Inc. ("ISO-New England") leaving 20%, or \$1.138 million, to be paid by Vermont distribution utilities. The projected net return of \$2.033 million will be partially offset by the increase in transmission charges of \$1.138 million resulting in the estimated annual net benefit to Vermont distribution utilities and their ratepayers of \$885,000 which is credited against common transmission costs paid by the utilities for local transmission service. Robinson pf. at 3-4; exh. TRANSCO NER-1.

6. Transco estimates that Vermont distribution utilities and ratepayers would not be as well off if Transco issued \$35 million in additional debt as opposed to additional equity. Assuming a 5% cost of long-term debt, Transco's annual incremental revenue requirement would be lower at \$1.750 million (interest expense) with a substantial portion recoverable from ISO-New England although at a smaller recovery rate since Transco's capital structure would be heavily weighted towards debt. Transco projects, after assuming the same recovery rate of 80% or \$1.4 million, that the revenue requirement recoverable from the Vermont distribution utilities would be reduced from \$1.138 million to \$350,000 annually. However, without the \$885,000 in annual net benefit provided by the Class A and Class B units, taken together with the \$350,000 in transmission charges to the utilities, financing the \$35 million with debt would result in a net loss to Vermont distribution utilities and ratepayers of approximately \$1.235 million. Robinson pf. at 4-5; exh. TRANSCO NER-1.

7. Transco proposes to offer the Class A and Class B Units on a load-ratio share basis meaning that the opportunity for distribution utilities to invest in Transco will be proportionate to their use of the Transco transmission system. In the event that an investor chooses not to invest or purchases only a fraction of the Units offered, the unsubscribed shares will be made available to all other distribution utilities on a load-ratio share basis. All distribution utilities have rights of over-subscription to acquire pro rata any Units that an investor chooses not to purchase. Robinson pf. at 8; exh. TRANSCO NER-5.

8. Transco proposes to issue the Units prior to December 31, 2009. The mechanics of the ISO-New England tariff allow for a return on equity which is recorded on Transco's books as of December 31 of each year. If Transco is unable to issue the Units prior to December 31, 2009, the Company will be unable to earn a return from ISO-New England on the incremental capital until 2011. As a result, Vermont distribution utilities would be required to cover the entire cost of the return paid on equity for whatever portion of 2010 the equity was issued and outstanding. Robinson pf. at 6.

III. DISCUSSION & CONCLUSION

Based upon the foregoing and the evidence in the record, I find that the issuance by Transco of up to \$35 million in Class A and Class B Units as described in the Petition will be consistent with the general good of the State and I therefore recommend that the Board issue an order to that effect. The proposed equity funding will allow Transco to achieve its target capital structure of 50% debt and 50% equity resulting in a favorable credit rating and lower borrowing costs for the Company. In addition, Vermont ratepayers will receive a positive net annual benefit from the issuance, estimated at \$885,000, as opposed to a much lower return from the issuance of debt since the incremental revenue requirement recoverable from ISO-New England is much higher for equity issuance. Lastly, the funding provided by the Units will allow Transco to continue to maintain a reliable electric power transmission system.

The parties have waived their rights to file exceptions and present arguments under 3 V.S.A. § 811. Therefore, the proposal for decision has not been served on the parties.

Dated at Montpelier, Vermont this 10th day of November, 2009.

s/Jay E. Dudley
Jay E. Dudley
Hearing Officer

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The findings, conclusion and recommendation of the Hearing Officer are adopted.
2. The issuance and sale of up to \$35 million of Class A and Class B Units as set forth in Vermont Transco LLC's ("Transco" or the "Company") Petition in this docket and as described in the Findings are consistent with the general good of the State of Vermont.
3. Pursuant to 30 V.S.A. § 108(a), consent is hereby given to Transco to issue up to \$35 million of Transco's Class A and Class B Units at a price of \$10 per Unit and otherwise on the terms provided in Transco's Operating Agreement, as described in the Findings above.
4. This Order does not constitute approval of Transco's capital structure or of any particular capital or operating expenditure that may be implemented with the proceeds from the issuance of the Class A and Class B Units contemplated in the Petition in this docket. Nothing in this approval shall preclude the Vermont Department of Public Service ("DPS") or any other party, or the Vermont Public Service Board ("Board"), from reviewing or challenging such expenditures or Transco's resulting capital structure.
5. Transco shall inform the Board and the DPS of any material change in the terms and conditions of the proposed stock issuance.
6. Transco shall provide the Board and the DPS with a copy of the final issuance of Class A and Class B Units, using Exhibit TRANSCO NER-5 as a template, within 30 days of completion of the issuance.

Dated at Montpelier, Vermont, this 16th day of November, 2009.

<u>s/James Volz</u>)	
)	PUBLIC SERVICE
)	
<u>s/David C. Coen</u>)	BOARD
)	
)	OF VERMONT
<u>s/John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: November 16, 2009

ATTEST: s/Susan M. Hudson
Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.